

Rezco Asset Management remained relatively cautious throughout the 2019 calendar year due to geo-political risks around US/China, but also due to Brexit and the lack of structural reform in South Africa. Despite our cautiousness in what turned out to be a strong year for equities, the Rezco funds performed well across the board in 2019. Although geo-political risks dissipated into the year-end, the outcome of these risks was difficult to forecast during the year. Therefore, the funds were particularly active in their asset allocation in order to manage risk as facts emerged.

PERFORMANCE FOR 2019		
As at: 31/12/2019 Data Point: Return Currency: ZAR Source Data: Total, Monthly Return		
	QUARTILE RANK	PERFORMANCE
Rezco Global Flexible Feeder Fund A	1	23.5%
Rezco Equity Fund A	1	14.9%
Rezco Managed Plus Fund A	1	15.2%
Rezco Value Trend Fund A	1	13.6%
Rezco Stable Fund A	1	12.1%
STeFI Composite ZAR		7.3%
Source: Morningstar		

Please see the fund fact sheets for more detailed performance metrics.

While we are pleased with the sound performance in both absolute and relative terms, the more important point to note is that we remained cautious throughout the year, managing the risk. This is evident in the risk statistics of the funds, especially the downside capture ratios and the sortino ratios. Furthermore, as mentioned in previous commentaries, the funds continued to have a low correlation to their peers, which normally helps to reduce risk in a diversified portfolio.

One of the themes that worked extremely well for the funds during the year was a conviction position within the platinum group metals (PGM), both the actual mining companies and the physical commodities. This theme added significantly to the returns of the funds and to upside volatility. The sortino ratio of the Rezco Value Trend Fund was 1.3, which is high relative to peers (i.e. a higher sortino ratio is better than a lower

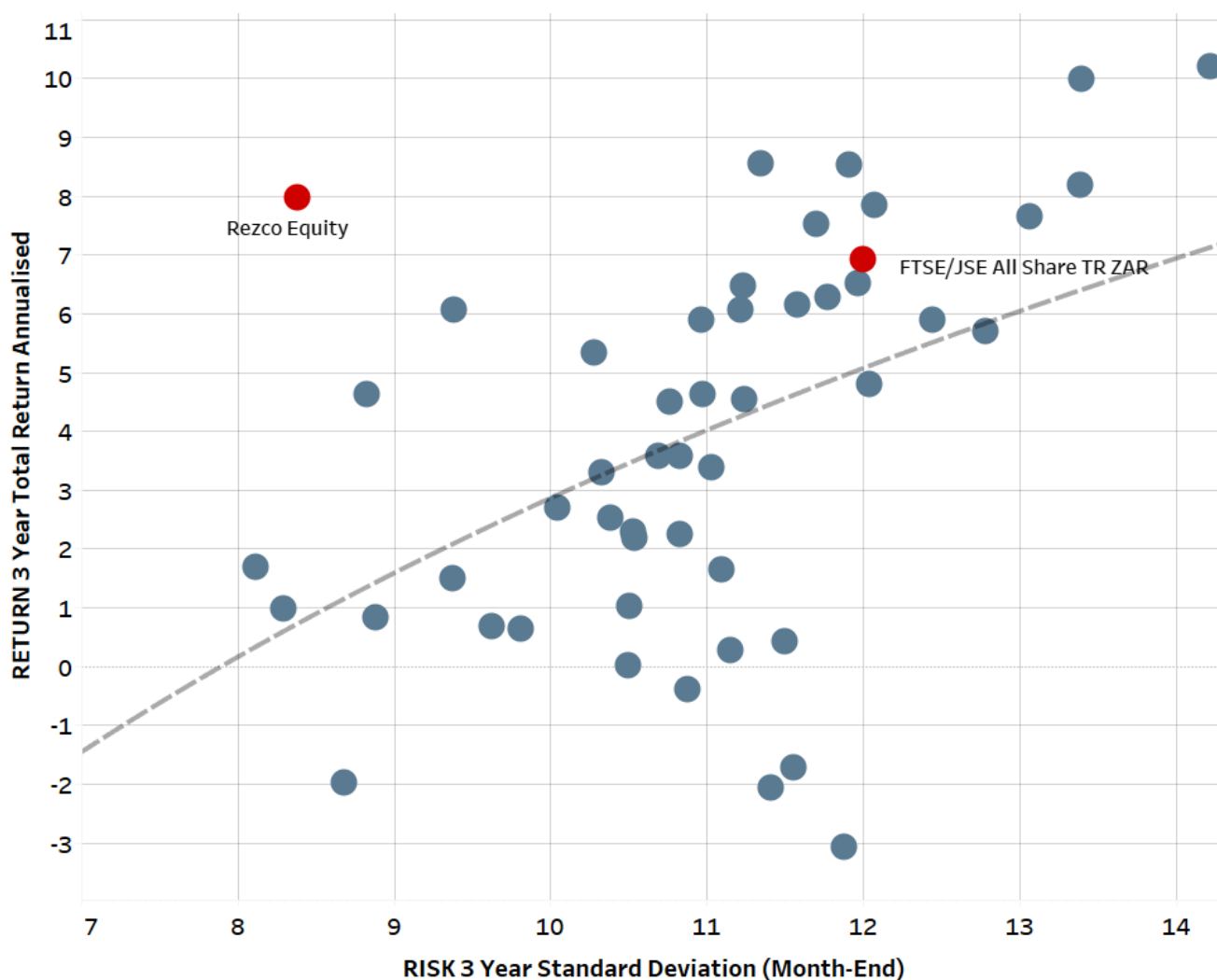


one; a sortino ratio excludes upside volatility). Adding to this, the down capture ratio was 11.9% and the upside capture ratio was 61.1% for 2019. This means that the Fund captured 61.1% of the upside of the market, while only capturing 11.9% of the downside of the market. Therefore, the Rezco Value Trend Fund outperformed well with much lower risk.

The Rezco Equity Fund produced good performance for the year and was ranked in the top quartile across all periods. Beta remains lower than peers at 0.6 and the Fund still has a low correlation to the market and other funds. The chart below illustrates that the Rezco Equity Fund has performed in line with other top performing funds of the sector, but at a much lower standard deviation over the period.

REZCO EQUITY FUND

RSA EQUITY ONLY



2020 OUTLOOK

The 2020 year has started off in a promising manner, with most growth assets performing well and with the PGMs having a strong rally. Most of the support for growth assets has come from the combination of lower geo-political risks and monetary policy, which remains highly accommodating. This creates a “Goldilocks environment” in which markets can slowly climb higher. There are of course some significant risks for 2020, with four of the major risks concerning us being:

- A flare-up in the US-China relations: The trade deal was a pause in escalations but certainly not a solution. The most difficult aspects to negotiate are technology and, depending how the US elections go, social issues.
- The outcome of the US presidential election: There are increased risks surrounding a more socialist leaning win in the Democratic primary elections.
- Inflationary risks starting to surface towards the end of the year: Low or negative interest rates cannot persist indefinitely. However, the longer they do, the bigger the risk of asset bubbles. We remain vigilant around signals of higher inflation, which could cause a significant crash in inflated equity prices.
- Coronavirus: If the virus continues to spread it could disrupt global commerce, China growth and severely impact investor sentiment. Resources are particularly exposed.

While we are vigilant about these global risks, the impact of easy money trying to “find a home” will, in the absence of a major risk escalating, likely result in global markets slowly trending upwards.

Turning to South Africa, the biggest risk is political inaction. Businesses have been looking for confidence and clarity in order to invest. However, the inverse has been true, with uncertainty prevailing. This is as a result of the complexity of the problem of fixing South Africa, combined with a lack of political unity within the ANC. While we remain hopeful that South Africa will see the structural reform so desperately needed, little is being done to stimulate growth and create jobs. Therefore, company earnings are expected to continue to be disappointing. While P/E ratios may suggest South African companies are starting to look cheap, we remain concerned that earnings expectations have further to fall.

Given the divergence in outlooks between South Africa and global equity markets, the funds’ positioning is significantly tilted towards global exposure, while there is little exposure to SA Inc. Where we do hold SA Inc companies, this is largely due to an expectation that the company-specific outlook is compelling and not necessarily reliant on South African GDP growth. Globally, we continue to see opportunity in investing in US based companies, given the strength of their economy. That being said, opportunities are starting to emerge in Europe and Japan. Emerging markets rallied into the year-end – this is not surprising given the risk-on nature of the market. Supporting this rally are strong investment flows into emerging market funds as well. Interestingly, South Africa has underperformed. This may suggest global investors are becoming increasingly concerned about the lack of growth and reform.

We expect to continue to be active in both asset allocation and stock picking during 2020, given that this year seems to be playing out in a similar way to 2019, namely: easy money, momentum markets and uncertain geo-political risks. We will utilise our active and flexible style to carefully manage risk, most likely erring on the cautious side, given the asymmetric nature of negative geo-political risks in the context of a market at a record high.

CAN REZCO HAVE ANOTHER GOOD YEAR IN 2020?

With the wisdom of hindsight, 2019 may now seem like a fairly simple year to have invested in – markets were strong, interest rates stayed low, geo-political risks dissipated, and global economic growth was steady while inflation remained low. The truth of the matter is that it was an exceptionally difficult market to navigate. Given the changing nature of the markets, especially the rise and influence of quantitative, smart beta and passive investing, the ability of Rezco to be agile, quickly adjusting to new information, allowed for the funds to perform well from a return perspective, but also to manage risk carefully. We believe that being a mid-size asset manager, and having a competitive advantage in our use of technology, is a really good combination for the type of markets we are expecting in 2020. Geo-political risks may have calmed for now, but will come and go throughout the year. South African political risk and uncertainty still remains elevated. Our ability to manage risk as well as select great shares through solid fundamental analysis, while being supported by higher frequency quantitative signals, is a useful toolkit.

We are extremely happy to have generated good returns for our investors during 2019. Thank you for being a loyal client, allowing us to remain focused on searching for great investment opportunities, and for investing for the long term with Rezco.



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